

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

Information

July 1, 1969

FROM: Henry Kissinger *HK*

SUBJECT: IPC Views on its Problem in Peru

Attached is a brief cable relating the views of IPC and Standard Oil of New Jersey officials on the IPC/Hickenlooper problem in Peru. Their views are interesting, and I thought should be brought to your attention.

These officials stated that:

- a. a prolonged deferral of application of Hickenlooper amendment is highly desirable;
- b. internal pressures will build and force moderation if sufficient time is allowed;
- c. the six months in Hickenlooper is too short for resolution of such a complicated issue, and any deadline is not a useful aspect of the law;
- d. they are concerned about finding grounds for the next deferral if the administrative appeal is rejected; and
- e. they do not want to go to the Peruvian courts; although they could not take the lead in developing a buy-out scheme by other companies, they would listen to proposals put forward by any group.

Attachment

State's message to Embassy Lima (103934), June 24.

*Be sure
Hickman
knows this
so that he
can cool off
Congressional critics
of deferral*

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

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ACTION

SECRET

July 2, 1969

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger

SUBJECT: IG Paper on Peru

① OK
② But I believe you should check it with N.R. at a country

As the time begins to run out on the administrative appeal period which terminates in August, the Latin American Interdepartmental Group has completed a game plan which is attached at Tab A. Also included is a CIA analytical annex supporting the study. The key aspects of the study follow:

Basic Recommendations

The paper concludes, in effect:

- We should continue to maintain pressure to move Peru slowly over an extended period in the direction of a settlement and more constructive position, but
- we should avoid the disadvantages of a country to country confrontation which would occur from a formal application of Hickenlooper and which would likely galvanize Latin American support on the side of Peru;
- therefore, we should defer applying Hickenlooper for a prolonged period so long as any plausible basis to do so can be found, and
- we should actively seek a basis for such deferral even beyond the end of the administrative appeal process in August.

The line of argument which the paper stresses is:

- the IPC case is very unlikely to be settled in the remaining period up to August in any case;
- more time is needed than we had originally thought;

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- a Hickenlooper confrontation will not only make settlement impossible even in the longer run, but damage US interests generally and radicalize Peru;
- hence, our best chance of protecting US interests in balance is to buy a prolonged period of several months to work out a settlement and to permit the external pressures to work on the political situation and the government.

ANALYSIS

The Issue. The paper argues that the chances for Velasco compromising in the immediate future are extremely slim, and that no economic pressures we can bring to bear in this period are likely either to force a compromise on IPC or bring about a government change in Peru. Therefore, the issue we will have to face very soon is whether or not to impose Hickenlooper sanctions without Peru's having taken more than token steps toward a settlement.

The Results of Hickenlooper. The paper assesses the gains and losses of formally invoking Hickenlooper in the light of three sets of US interests -- (a) obtaining compensation for IPC; (b) future US-Peru relations, and (c) general impact on the US position in the hemisphere. It concludes that in each case, but especially the second, the losses to the US interest outweigh the gains. Its main conclusions are:

1. Obtaining compensation - The pressure from Hickenlooper does not add enough to existing pressures to force or induce a settlement; on the contrary, officially imposing sanctions will make it impossible to settle the IPC case for a long time to come, because the nationalistic reaction it will produce will make it impossible politically for any eventual successor government to compromise.
2. US-Peruvian relations - The Velasco regime can probably survive the economic effect of Hickenlooper. The psychological effect would probably be to strengthen nationalistic reactions and Velasco's hold on power; it would also stimulate anti-US elements. There would also be immediate retaliation within Peru against other US businesses.

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3. Effect on the hemisphere - The gains-losses ratio depends greatly in this dimension upon how the confrontation takes place. Against the desirability of maintaining the credibility of our legislation and our previous threats, is the probable impossibility of assuring unified Latin American support for us against Peru in such a confrontation. In balance, there is a risk of prejudicing our efforts to introduce new policies stressing greater sensitivity to Latin viewpoints and of labelling this Administration's policies as a return to "big stick" diplomacy.

Conclusion. The paper does not analyze domestic US ramifications either in the business community or in the US Congress. But on the basis of the three foreign policy interests involved, it concludes that "the weight of argument strongly supports deferring sanctions for a prolonged period" so long as it can plausibly be done.

This conclusion implies a strategy, according to the paper, that would:

- continue to be unforthcoming on economic matters and maintain economic pressure to provide a framework for settlement and constructive change; but
- meanwhile, actively seek all plausible ways of deferring invocation of Hickenlooper even well beyond the end of the present administration appeal process; we should specifically:
 - a. press on with negotiations via the Irwin mission on some form of debt reduction/compensation formula;
 - b. actively attempt to develop viable petroleum company buy-out schemes; and
 - c. explore the feasibility of judicial remedies as an adequate measure.
- keep lines of communication open and avoid public hostility toward Peru.

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BASIC OPTIONS

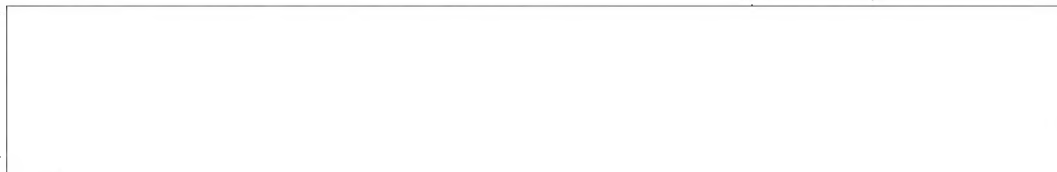
What is implicit in the paper is that we really have only two basic choices in the developing situation:

- either a major effort to bring Velasco down, or
- a strategy such as that outlined in the paper -- i.e., actively avoid a formal confrontation and seek a long-range resolution over time.

If the Peruvian regime were to develop into a Castroist anti-US force, we would have to take some action against it. That point has not arrived, however, and the present circumstances do not appear to warrant this major step by us at this time:

- Velasco himself is not the problem; almost the whole officer corps supports the Peruvian IPC policy; even if we could bring Velasco down, we have no one to put in his place; we could therefore be no closer to solution on IPC, and merely have shifted the problem to one of reaction to US intervention.

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- The dimension of the present problem therefore is simply not worth taking the risk of US intervention and the consequences that would result for our hemisphere and international position.

In balance, therefore, I believe that the paper's conclusion has merit.

IMPLICATIONS FOR STRATEGY

The paper's conclusions pose two problems for strategy:

- What should be done to secure a deferral and buy time, and
- How to use the time, once we have bought it.

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The paper sketched some directions in which a strategy might go. Recent developments, moreover, indicate a sudden greater willingness on the part of Peru to find an accommodation to the IPC and fisheries problems which should provide better opportunity to carry out a strategy of this kind.

Tentative agreement on a procedure to call a fisheries conference has led the Peruvian Government to suggest that this lays the foundation for movement on the IPC problem. The Peruvian Foreign Minister has suggested that President Velasco may want to send a message directly to you proposing a renewal of the Irwin talks. Embassy Lima interprets these recent developments as a signal from Velasco that he is ready to move forward on IPC and that this is a direct change from his attitude of a few weeks ago. Embassy Lima, as a result, is proposing a scenario combining an appeal on the administrative process and renewed Irwin talks which could permit us to avoid a confrontation in August while maintaining general economic pressure.

I believe it would be possible, taking advantage of the openings now offered us, to work out a "game plan" along the following lines:

- a. Renew the third round of bilateral negotiations; keep the talks going even if forward motion is slow; work toward a debt-reduction/net compensation formula.
- b. Press efforts to develop a "buy-out" scheme with a petroleum consortium.
- c. Decide internally the bases under which "local judicial remedies" would be acceptable to us, and prepare to fall back to their use, even on a limited scale, should administrative processes fail.


If you agree with the general conclusions of the attached paper, I recommend that you authorize me to ask State to develop implementing measures along the above lines.

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RECOMMENDATION:

That you authorize implementing action in line with the above.

Approve  Disapprove _____ See me _____.

Attachment:

Tab A - The IG paper on Peru, and a CIA summary of the IPC controversy.

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